Orange County Register

Insurance study bad news for governor

March 5, 2007

A new study by Harvard economists is bad news for Gov. Arnold Schwarzenegger's plan to force businesses to provide health **insurance** to all employees.

Such a mandate adopted nationwide would result in nearly 1 million lost jobs, according to a study by economists Ellen Meara and Meredith Rosenthal of the Employment Policies Institute, a nonprofit group specializing in entry-level employment issues.

In addition to the 995,000 lost jobs, the mandate also would shift another 1.6 million people to part-time employment as employers would avoid the new cost, the study said. Mandating employer-paid health **insurance** would add 8.2 million new insured persons, but "does so at the highest cost in terms of lost jobs, foregone wages and increased employer spending." Unintended bad consequences far outweigh benefits.

The study's authors preferred a second option: expanding Medicaid (Medi-Cal in California) by extending eligibility to everyone earning up to three times the present poverty level, which would add about 5 million people to the ranks of the insured.

However, expanding Medicaid, originally intended to assist only the poor, would cost $16.4 billion "in new public funds." In plain language, that's new taxes.

The study optimistically concludes that spending $16.4 billion in new taxes also would create a $16.5 billion "increase in aggregate wages." Perhaps. But considering the cost, the trade-off is woefully insufficient.

Unfortunately, Meara and Rosenthal downplay the best option: tax credits to encourage people to buy their own **insurance**. A tax credit of $1,000 per adult and $500 per child with a maximum of $3,000 per family would result in 1.6 million newly insured. Meara and Rosenthal don't like the tax credit option because in their minds it would, "cost $19.8 billion in public funds."

This is where their reasoning fails. The so-called "cost" really means government won't collect $19.8 billion of private individuals' money. Uncollected money isn't a "cost." Taxpayers who own the money don't see tax credits as a "cost." Every unpaid tax is a savings to them.

After correcting for the authors' misunderstanding of who owns that $19.8 billion, it's obvious which alternative is best. It's not mandating employer-paid **insurance** and losing 1 million jobs, or expanding the welfare state to put the middle class on the dole.

The best option is to allow people to keep their own money to buy **insurance**, rather than paying it in taxes. The Harvard economists' study is yet another affirmation of this truth, even if the authors don't recognize the fact.